

Orient Electric

Rating: **Buy**

Target Price(12-mth): Rs.282

Share Price: Rs.219

Lighting outshines, fans set for a strong show; upgrading to a Buy

Orient Electric's lighting category retained industry-leading growth, while its ECD was hit by late winter. Margins expanded on cost savings, premiumization and operating leverage. With the Hyderabad plant stabilised, fans are set for a roaring season. Robust growth in direct-to-market (DTM) states and the focus on premiumisation and product development would boost market share/margins. With the stock falling ~25% from Jul'24 highs, the risk-reward has turned favourable, leading us to upgrade our rating on it to a Buy with a TP of Rs282.

Lighting-led revenue growth. Q3 revenue grew 8.6% y/y to Rs8.2bn, led by industry-leading growth in L&S (up 11.9% y/y) while ECD revenue grew 7.3% y/y. Premiumisation and cost savings pushed up the gross margin 184bps y/y to 31.7%. The EBITDA margin expanded only 98bps to 7.5% due to higher staff costs (up 18.3% y/y) and other expenses (up 9.4% y/y). Consequently, PAT rose 11.7% y/y to Rs272m.

Fans poised for a strong show. Despite a lean quarter, fans grew in high-single digits in Q3, with greater contribution from premium and decorative fans. DTM states continued to outperform with 30% growth y/y. Management is focused on NPD (contributing 19% in Q3) and premiumisation (now 30% of sales) to drive market-share gains and better margins. With the Hyderabad plant stabilized, management expects healthy growth with margin betterment in coming quarters.

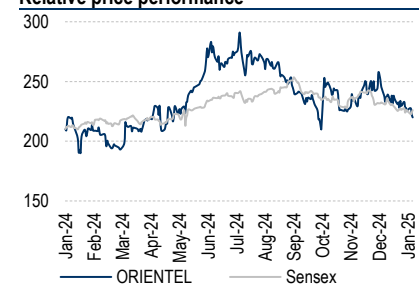
Valuation. At the CMP, the stock trades at 32.6x/23.4x FY26e/FY27e EPS of Rs6.7/9.4. We model 14.1% revenue and 48.4% PAT CAGRs over FY24-27, driving RoCE expansion from 13.5% to 31.3%. After the 25% fall from Jul'24, the risk-reward has improved, leading us to upgrade our rating on the stock to a Buy with a TP of Rs282 (earlier Rs295), on 30x FY27e EPS. **Key risks:** Product rollout delays may hurt growth and margins, or slower government lighting tenders could curb overall growth.

Key data	ORIENTEL IN / ONTE.BO
52-week high / low	Rs297 / 189
Sensex / Nifty	76533 / 23163
3-m average volume	\$0.7m
Market cap	Rs47bn / \$542.1m
Shares outstanding	213m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters	38.3	38.3	38.3
- of which, Pledged	-	-	-
Free float	61.7	61.7	61.7
- Foreign institutions	7.1	7.0	6.6
- Domestic institutions	27.9	27.9	27.8
- Public	26.7	26.8	27.4

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	-	-	-
EBITDA	(3.7)	(5.1)	(3.8)
EPS	(10.8)	(8.8)	(5.2)

Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	25,292	28,121	31,726	36,212	41,801
Net profit (Rs m)	758	613	810	1,437	2,003
EPS (Rs)	3.6	2.9	3.8	6.7	9.4
P/E (x)	61.6	76.4	57.8	32.6	23.4
EV / EBITDA (x)	29.9	32.1	22.8	15.3	11.6
P/BV (x)	8.0	7.3	6.8	6.1	5.3
RoE (%)	13.0	11.8	11.8	18.7	22.6
RoCE post-tax (%)	12.7	10.6	13.2	19.6	23.4
Dividend yield (%)	0.7	0.7	0.7	1.3	1.8
Net debt / equity (x)	(0.3)	(0.1)	(0.2)	(0.3)	(0.4)

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

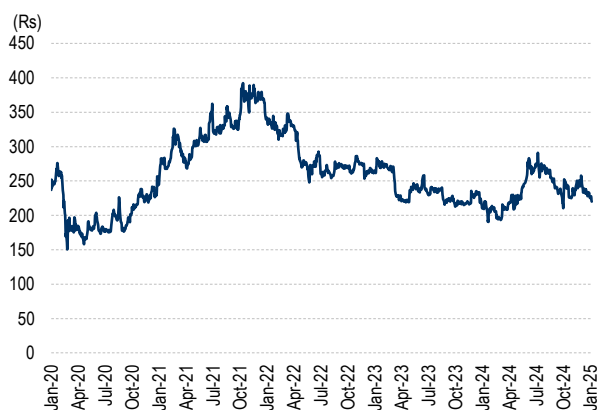
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	25,292	28,121	31,726	36,212	41,801
Growth (%)	3.3	11.2	12.8	14.1	15.4
Direct costs	18,242	19,570	21,415	24,370	28,007
Gross margins (%)	27.9	30.4	32.5	32.7	33.0
SG&A	5,540	7,108	8,313	8,942	10,095
EBITDA	1,510	1,443	1,998	2,899	3,699
EBITDA margins (%)	6.0	5.1	6.3	8.0	8.8
- Depreciation	535	590	778	906	960
Other income	266	155	127	181	209
Interest expenses	222	233	241	253	272
PBT	1,019	963	1,106	1,921	2,677
Effective tax rates (%)	25.6	21.8	26.8	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	758	753	810	1,437	2,003
Adjusted income	758	613	810	1,437	2,003
WANS	213	213	213	213	213
FDEPS (Rs)	3.6	2.9	3.8	6.7	9.4
FDEPS growth (%)	(40.1)	(19.2)	32.2	77.4	39.4

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	975	853	1,220	1,993	2,740
+ Non-cash items	535	590	778	906	960
Oper. prof. before WC	1,510	1,443	1,998	2,899	3,699
- Incr. / (decr.) in WC	709	282	(83)	(104)	(129)
Others incl. taxes	(261)	(210)	(296)	(483)	(674)
Operating cash-flow	1,958	1,515	1,619	2,312	2,896
- Capex (tang. + intang.)	1,503	2,081	295	500	500
Free cash-flow	456	(566)	1,324	1,812	2,396
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	319	320	341	598	854
+ Equity raised	1	1	-	-	-
+ Debt raised	(46)	108	-	-	-
- Fin investments	-	373	-	-	-
- Misc. (CFI + CFF)	46	172	(114)	(72)	(63)
Net cash-flow	137	(979)	869	1,142	1,480

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

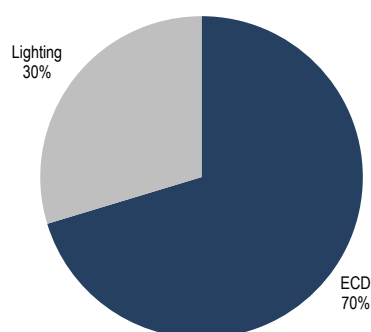
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	213	213	213	213	213
Net worth	5,846	6,389	6,858	7,698	8,847
Debt	101	209	209	209	209
Minority interest	-	-	-	-	-
DTL / (Assets)	(255)	(302)	(302)	(302)	(302)
Capital employed	5,693	6,296	6,765	7,605	8,754
Net tangible assets	2,075	2,216	3,938	3,532	3,073
Net intangible assets	216	167	167	167	167
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	827	2,226	20	20	20
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	373	373	373	373
Current assets (excl. cash)	7,632	8,563	9,661	11,027	12,729
Cash	1,642	663	1,532	2,674	4,154
Current liabilities	6,699	7,912	8,926	10,188	11,761
Working capital	933	651	735	838	968
Capital deployed	5,693	6,296	6,765	7,605	8,754
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	61.6	76.4	57.8	32.6	23.4
EV / EBITDA (x)	37.1	39.7	28.2	19.0	14.5
EV / Sales (x)	2.2	2.0	1.8	1.5	1.3
P/B (x)	8.0	7.3	6.8	6.1	5.3
RoE (%)	13.0	11.8	11.8	18.7	22.6
RoCE post-tax (%)	12.7	10.6	13.2	19.6	23.4
RoIC post-tax (%)	17.9	12.7	18.4	32.7	48.5
DPS (Rs)	1.5	1.5	1.6	2.8	4.0
Dividend yield (%)	0.7	0.7	0.7	1.3	1.8
Dividend payout (%) – incl. DDT	42.1	42.5	42.2	41.6	42.6
Net debt / equity (x)	(0.3)	(0.1)	(0.2)	(0.3)	(0.4)
Receivables (days)	54	61	61	61	61
Inventory (days)	41	41	41	41	41
Payables (days)	65	71	71	71	71
CFO : PAT (%)	258.2	247.4	199.9	160.8	144.6
FCF / PAT (%)	60.1	(92.4)	163.5	126.0	119.6

Source: Company, Anand Rathi Research

Fig 6 – Q3 FY25 revenue break-up



Source: Company

Fig 7 – Financial performance

(Rs m)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	% Y/Y	% Q/Q
Net sales	7,390	6,579	7,056	5,669	7,519	7,877	7,549	6,602	8,168	8.6	23.7
Gross profit	2,115	1,864	2,163	1,717	2,247	2,424	2,502	2,138	2,591	15.3	21.2
Margins (%)	28.6	28.3	30.7	30.3	29.9	30.8	33.1	32.4	31.7	184 bps	(66) bps
EBITDA	549	464	440	207	489	307	401	357	612	25.0	71.6
Margins (%)	7.4	7.0	6.2	3.6	6.5	3.9	5.3	5.4	7.5	98 bps	209 bps
Depreciation	139	137	143	142	150	155	175	196	202	34.0	2.8
Interest	60	61	59	52	54	68	57	60	61	13.4	1.3
Other income	86	63	29	34	43	50	25	42	17	(60.5)	(59.7)
Extraordinary items	-	-	-	187	-	-	-	-	-		
PBT	436	328	266	234	328	135	193	142	366	11.6	157.3
Tax	110	82	69	49	85	7	49	38	95	11.6	149.3
ETRs (%)	25.3	25.0	26.0	21.1	25.8	5.1	25.5	26.6	25.8		
Reported PAT	326	246	197	185	243	128	143	104	272	11.7	160.2
Adj. PAT	326	246	197	44	243	128	143	104	272	11.7	160.2
Adj. EPS	1.5	1.2	0.9	0.2	1.1	0.6	0.7	0.5	1.3	11.7	161.7

As % of income	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	bps y/y	bps q/q
Gross margins	28.6	28.3	30.7	30.3	29.9	30.8	33.1	32.4	31.7	184	(66)
SG&A	21.2	21.3	24.4	26.6	23.4	26.9	27.8	27.0	24.2	86	(275)
EBITDA margins	7.4	7.0	6.2	3.6	6.5	3.9	5.3	5.4	7.5	98	209
Depreciation	1.9	2.1	2.0	2.5	2.0	2.0	2.3	3.0	2.5	47	(50)
Interest	0.8	0.9	0.8	0.9	0.7	0.9	0.8	0.9	0.7	3	(16)
Other income	1.2	1.0	0.4	0.6	0.6	0.6	0.3	0.6	0.2	(36)	(43)
Extraordinary Items	-	-	-	3.3	-	-	-	-	-	-	-
PBT	5.9	5.0	3.8	4.1	4.4	1.7	2.6	2.2	4.5	12	233
ETRs	25.3	25.0	26.0	21.1	25.8	5.1	25.5	26.6	25.8	(2)	(83)
Adj. PAT margins	4.4	3.7	2.8	0.8	3.2	1.6	1.9	1.6	3.3	9	174

Segment	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	% Y/Y	% Q/Q
Net sales (Rs m)											
ECD	5,388	4,577	5,150	3,634	5,352	5,691	5,449	4,395	5,743	7.3	30.7
Lighting	2,003	2,003	1,906	2,035	2,167	2,186	2,100	2,206	2,425	11.9	9.9
Sales mix (%)											
ECD	72.9	69.6	73.0	64.1	71.2	72.2	72.2	66.6	70.3		
Lighting	27.1	30.4	27.0	35.9	28.8	27.8	27.8	33.4	29.7		
EBIT (Rs m)											
ECD	645	445	492	297	603	465	494	389	643	6.7	65.5
Lighting	311	391	307	269	307	281	390	300	322	4.9	7.4
EBIT margins (%)											
ECD	12.0	9.7	9.5	8.2	11.3	8.2	9.1	8.8	11.2	(7) bps	236 bps
Lighting	15.6	19.5	16.1	13.2	14.2	12.8	18.6	13.6	13.3	(89) bps	(31) bps

Source: Company

Q3 FY25 call takeaways

Financials, Outlook

- Strong growth in Oct (due to festival demand), followed by slowdown from Nov to mid-Dec. Demand for heating products picked up in late Dec as winter set in
- Sanguine regarding growth
- Premiumization in lighting, fans and appliances driving gross margin expansion
- Gained market share in fans and lighting
- Tapas Roy Chowdhary appointed head of switchgear & wires; he was previously with GM, Polycab, Havells and Philips
- Early summer onset expected in the north and east; trade inventory normal
- Gross margin back to pre-Covid levels (31-33%) due to premiumization, a better product mix and channel re-organisation; targeting 100bp improvement over 1-2 years
- Employee cost: 80% fixed, 20% variable
- Consulting project concluded in Q1 FY25
- Rs520m ytd savings under Spark Sanchay, up 13% y/y
- Stable gross margins and operating leverage from revenue growth expected to drive high single-digit EBITDA, with long-term goal of double digits

The ECD division

- Fans grew in high single digits, with greater share of premium & decorative fans, leading to market-share gains
- Sharper focus on premium fans; BLDC fans grew 60% in Q3 and now constitute 20% of ceiling fan sales, growing 25%
- Master distributor-led states account for 70% of fan sales while DTM states, 30%. Added over 7,000 retailers to network in DTM states
- DTM states grew 30% y/y. Currently, in 11 DTM states; added rest of West Bengal in Q3
- Product launches brought 19% to fan sales
- Hyderabad plant stabilised, with benefits expected in coming quarters
- Appliances saw strong early-quarter demand, which tapered down due to the cold wave in north India
- Sell-out strategy on e-commerce platforms has driven fan and appliance sales
- Digital campaigns boosted premium water-heater sales, improving the sales mix 300bps

The Lighting division

- Consumer lighting saw high double-digit volume growth; price erosion continued in Q3. However, the better product-mix and premiumization thrust led to an increase in share of luminaires.

- Growth momentum in B2B continued with execution of key projects in Street Lighting & Façades. Also, project enquiries have picked up.
- The share of premium products rose 400bps y/y to 50%; chip-on-board (CoB) growing in high teens.
- Lighting features three categories: commoditised (bulbs & battens) facing price erosion, value-added lighting, and B2B lighting, which is growing faster due to infrastructure demand and rising street-lighting inquiries
- B2C and B2B split - 80:20
- Switchgear registered double-digit growth, while wires registered muted growth due to price fluctuations
- Investing in switchgear and wires under a new business unit head; strong growth potential as the category is in early stages.

Outlook, Valuations

Orient Electric's lighting category retained industry-leading growth, while its ECD was hit by late winter. Margins expanded on cost savings, premiumization and operating leverage. With the Hyderabad plant stabilised, the fan category is set for a strong season. Robust growth in DTM states and the focus on product development and premiumization are expected to boost market share and margins.

We model 14.1% revenue and 48.4% PAT CAGRs over FY24-27, driving RoCE expansion from 13.5% to 31.3%. With the stock falling ~25% from its Jul'24 highs, the risk-reward has turned favourable, leading us to upgrade our rating on the stock to a Buy with a TP of Rs282 (earlier Rs295), on 30x FY27e EPS. At the CMP, it trades at 32.6x/23.4x FY26e/27e EPS of Rs6.7/9.4.

Fig 8 – Estimates change

	New			Old			Variance (%)		
(Rs m)	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25	FY26	FY27
Net sales	31,726	36,212	41,801	31,726	36,212	41,801	-	-	-
EBITDA	1,998	2,899	3,699	2,076	3,055	3,844	(3.7)	(5.1)	(3.8)
EBITDA margins (%)	6.3	8.0	8.8	6.5	8.4	9.2	(24) bps	(43) bps	(35) bps
PBT	1,106	1,921	2,677	1,229	2,105	2,822	(10.0)	(8.8)	(5.2)
Adj. PAT	810	1,437	2,003	908	1,575	2,112	(10.8)	(8.8)	(5.2)
Adj. EPS	3.8	6.7	9.4	4.3	7.4	9.9	(10.8)	(8.8)	(5.2)

Source: Anand Rath Research

Fig 9 – 1-yr forward P/E band



Source: Company, Anand Rath Research

Fig 10 – The stock trades near -1SD levels



Source: Company, Anand Rath Research

Key risks

- Delay in product rollouts could curtail impact growth and margins.
- Slowdown in government lighting tenders could curb lighting growth.

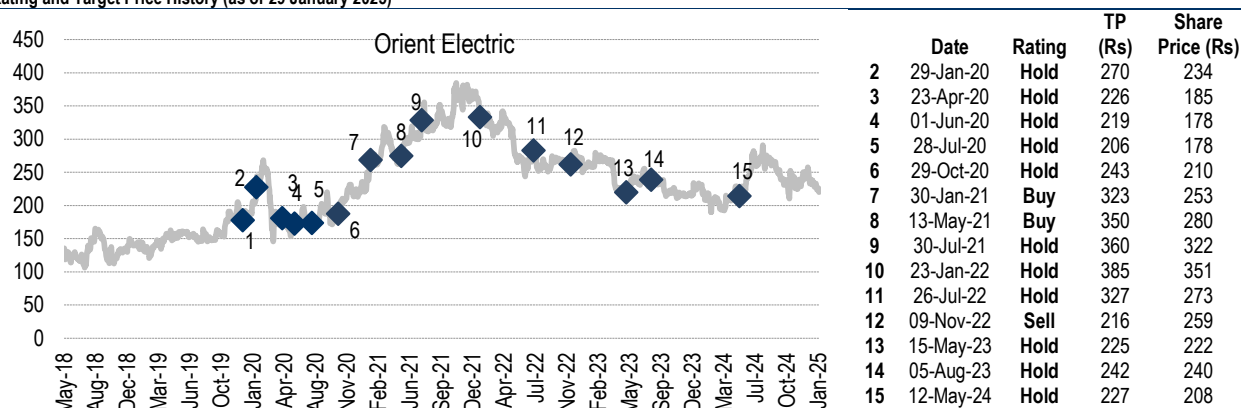
Appendix

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